REINVESTMENT UPDATE

A publication of the San Diego City-County Reinvestment Task Force Spring 2001

Inside this Issue

Reinvestment Update is a publication of the City-County Reinvestment Task Force. The Task Force's mission is to "spur private and public financing of affordable housing and economic development activities in those communities experiencing

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Master Plan Gets Endorsements

The Task Force recently drafted a Reinvestment Master Plan, a proactive but feasible business plan that defines the most significant efforts needed to affectively address disinvestment in the San Diego region. The recommendations of the Plan constitute the strategy the Task Force will pursue over the next three years for the benefit of the San Diego region. They are based on cooperative efforts of government, community and federally regulated lenders and include increased access to capital for affordable housing and small business development.

The Plan got some key governmental endorsements in March. On March 7 the Master Plan was presented to the Public Safety & Neighborhood Services committee of the San Diego City Council. The committee approved the Plan and directed the Task Force to bring it back to the full council for their endorsement.

On March 13 the Task Force presented the Plan to the County Board of Supervisors. The main focus of the presentation was the development of the San Diego specific equity funds. The Board directed the CAO to receive the plan and to return to the Board in 90 days with a report detailing the costs, legal issues, and feasibility of implementing the recommendations.

Numerous bank and community representatives spoke on behalf of the Master Plan at both meetings. The council and board members were encouraged by the strong support for the Plan and thanked those in attendance for their hard work in developing it.

The Task Force has also organized an oversight committee to move the equity funds concept to a reality. The committee will review the funds that have been developed in Los Angeles, Sacramento, and the Bay Area to gain insight on the needs and expectations for a fund in San Diego. Then they will locate sources of funding to hire a consultant to develop the funds. The consultant will do a market analysis, create the structure for the funds, and secure the investments.

Credit Needs Follow-Up Research Finished

The 1999 Credit Needs Assessment Study identified several disparate lending rates when comparing low to high-income defined census tracts. In addition, the research provided an **estimate of $90 million in unmet loan potential** for small businesses in low and moderate-income defined census tracts.

Steve Bouton, of Bouton & Associates was contracted to do a follow-up study to address questions raised about the composition and geographic nature of the census tracts. To analyze these questions in detail several new data sets were acquired and integrated into the previous study tables through GIS (geographic information systems) technology. The research shows that bank lending in low and moderate-income tracts is improving, but the various rates of lending are still below those of high-income census tracts. Some of the key findings from the study were:

San Diego County
CRA Small Business Lending 1998 versus 1999
Dollars in Thousands ($000)

	1998	1999	% Change
Number Small Business Loans	25,505	35,962	41.00%
Dollar Small Business Loans	$1,265,003	$1,607,842	27.10%
Number Loans to Small Businesses	12,472	18,185	45.81%
Dollar Loans to Small Businesses	$481,508	$586,263	21.76%

- From 1998 to 1999 CRA Small Business Lending increased 27 percent in loan dollars and 41 percent in number of loans for San Diego County
- 1999 CRA Small Business Loan Dollars in low-income census tracts grew 55.8
- The rate of lending per 100 businesses increased from 19.52 in 1998 to 26 in 1999 in low-income tracts
- In 1999 the average number of loans per low-income census tracts was 42 compared to 80 in high-income tracts
- There are distinct economic profiles in low-income tracts versus high-income tracts. Retail and Service Sector businesses have dominated low-income tracts while high-income tracts are dominated by Construction, Manufacturing, Business Services and professional businesses, such as engineering and accounting
- The economic clusters for the regional growth plan do not represent the types of businesses located in low-income tracts
- Low-income areas have relatively small amounts of commercial and industrial land when compared to high-income tracts
- Low-income tracts have few owner occupied commercial, industrial parcels

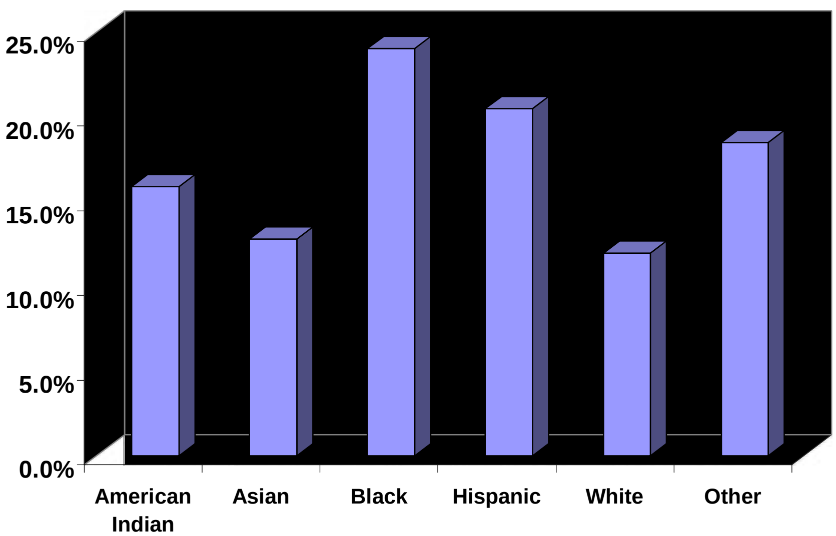
The study suggests that because of the unique business profile in these areas, banks need to:

1. Develop and market specialized small business loan products designed to meet the needs of business in the retail and service sectors. As well as develop loan products for businesses that are very small, often employing two or fewer employees.
2. Continue working with the Task Force to develop programs to increase the number of bankable businesses in low-income areas.

The Task Force thanks the following funders for making this study possible: Bank of America, California Bank & Trust, California Federal Bank, Fallbrook National Bank, First National Bank, Hanmi Bank, San Diego National Bank, Scripps Bank, US Bank, and Washington Mutual. For a copy of the study call Michael Lengyel at (858) 694-4873.

1999 HMDA Analysis Shows Disparity in Home Mortgage Lending

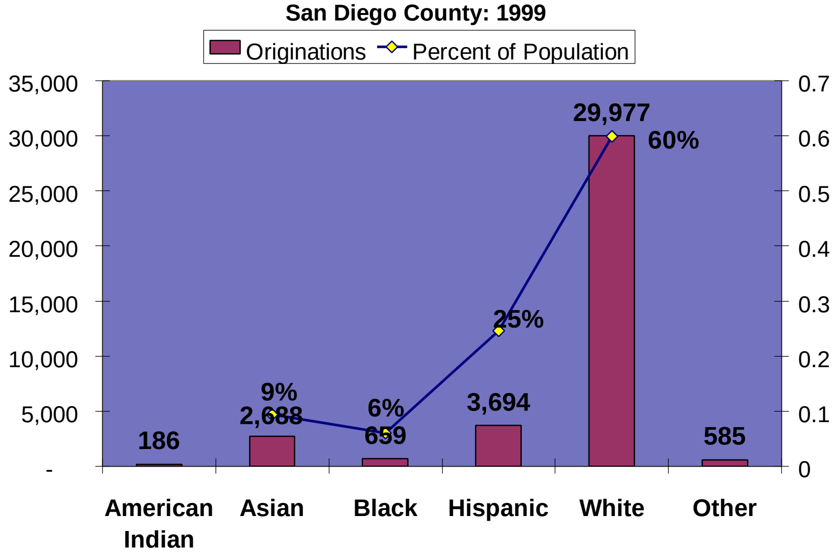
An analysis of 1999 Home Mortgage Disclosure Act data (HMDA) by the Reinvestment Task Force shows disparate levels of home mortgage lending to minorities in San Diego County, specifically for Blacks and Hispanics (source: ffiec.gov). Chart 1 shows that Blacks and Hispanics were rejected home loans 24.1% and 20.5% of the time, while Whites were rejected only 12% of the time.



This disparity exists even when controlling for income. Denial of home loans by race broken out by three income levels: below 80% of the county median income, 80% - 120%, and more than 120% still shows that Blacks and Hispanics consistently were denied more often for home loans. High-income Blacks (17.2%) and Hispanics (14.0%) were rejected home loans at greater rates than middle-income Whites (13.6%).

Minorities also did not receive their fair share of home loans. Chart 2 compares the number of home loans that were originated with the percent of the County population (SANDAG data) that each race comprises. All things being equal, each race should receive a share of loan volume equal to their population percentage. Whites receive an equal share, but minorities receive less than their share.

There are various factors that can account for the discrepancies in the lending patterns. Poor credit history was the most common reason provided by lending institutions for denying conventional loans (34%), followed by high debt-to-income ratios (25%). The "other" category accounted for 30% of the responses, a significant percentage. To the extent that these factors are valid, there may be justification for differences in denial rates and the number of originations. The concern is that the disparity in denial rates may also be attributable to discrimination based on race.



Treasury Releases Final CRA Study

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The researchers broke some new ground for the Treasury report when they based conclusions on careful data collection and analysis. For instance, they found that **the amount of CRA-related home lending to low- and moderate-income communities and borrowers increased in metropolitan areas in which lending institutions and community groups negotiated CRA agreements**. CRA agreements are promises to lend and invest specified amounts of dollars in future time periods. Regression analysis also found that lending institutions made more CRA-related home loans in their CRA assessment areas than in their non-assessment areas.

The researchers recommend a follow-up study in five years to assess the impact of Gramm-Leach-Bliley on CRA performance. The report is available at http://www.treas.gov/press/releases.

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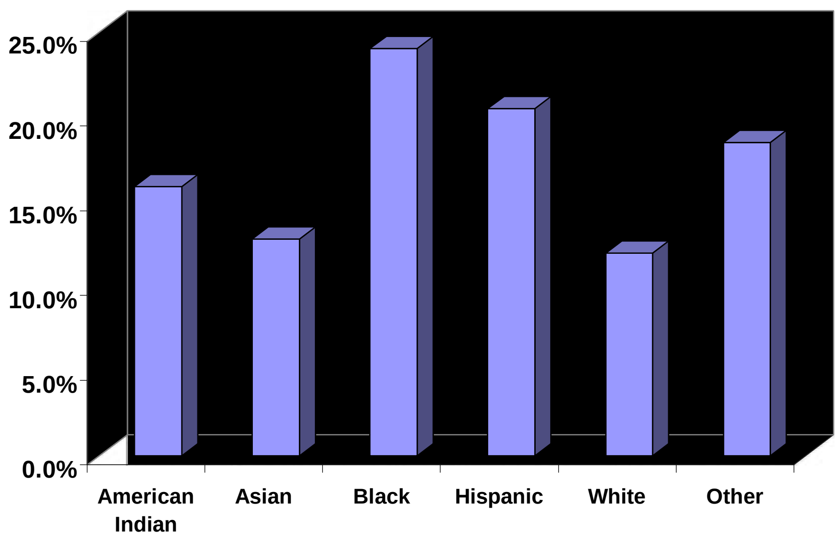
Chart 1: Denial Rate of Conventional Home Loans by Race
San Diego County: 1999



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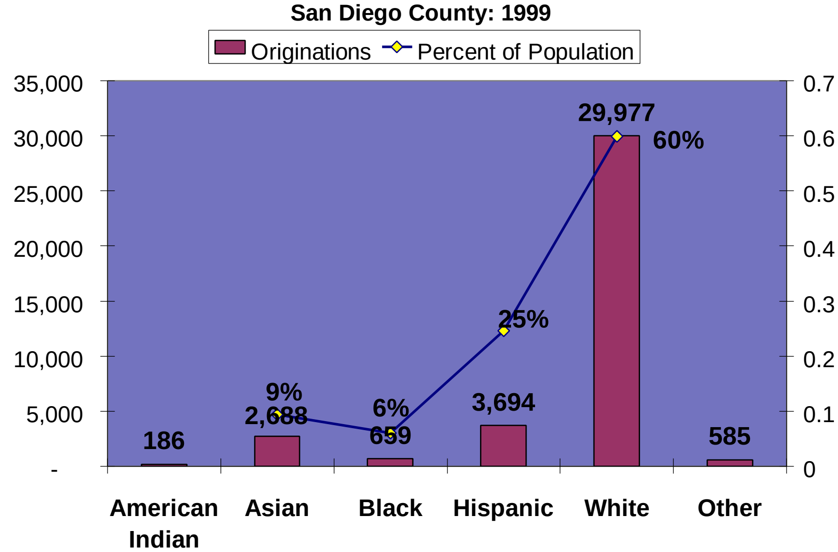

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